

**The Internal Revenue Service Has Improved
Controls Over the Issuance of Levies,
But More Should Be Done**

September 2002

Reference Number: 2002-40-176

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 18, 2002

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Acting Inspector General

SUBJECT: Final Audit Report - The Internal Revenue Service Has Improved
Controls Over the Issuance of Levies, But More Should Be Done
(Audit # 200240012)

This review presents the results of our review to determine whether the Internal Revenue Service (IRS) has complied with 26 U.S.C. § 6330, Notice and Opportunity for Hearing Before Levy.¹ The IRS Restructuring and Reform Act of 1998 (RRA 98)² requires the IRS to notify taxpayers at least 30 days before initiating any levy action to give taxpayers an opportunity to formally appeal the proposed levy. Specifically, we determined whether the IRS has sufficient controls in place to ensure that taxpayers are advised of their right to a hearing at least 30 days prior to levy action. This is the fourth annual report the Treasury Inspector General for Tax Administration (TIGTA) has issued in compliance with RRA 98 to determine whether the IRS is complying with legal guidelines over the issuance of levies.

Prior years' TIGTA reports have recognized that the IRS has implemented tighter controls over the issuance of levies. This was due primarily to the development of systemic controls in both the Automated Collection System (ACS) and the Integrated Collection System (ICS) to prevent a levy from being generated unless there were at least 30 days between the date taxpayers received the notice of their appeal rights and the date of the proposed levy. This year's review confirms that taxpayers continue to

¹ 26 U.S.C. § 6330 (Supp. IV 1998).

² IRS Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

receive timely notification of their appeal rights in virtually all cases. However, improvements are still needed.

Although the systemic controls in both the ACS and ICS are functioning as designed, revenue officers working in Collection field offices can easily circumvent the ICS systemic controls over the issuance of levies. Revenue officers have the ability to change the date that the notice of appeal rights was sent to the taxpayer. This could result in the systemic control incorrectly computing the number of lapsed days. We identified 1 case of this actually happening in our review of 61 levies generated by the ICS. To correct the problem, we recommend that management conduct a risk assessment of the area and implement additional controls to supplement existing ICS systemic controls.

Manual levies posed an even greater risk to the IRS. Although most levies are systemically generated by the ACS and ICS, manual levies must be issued in some circumstances. Our concern is that the IRS does not know how many manual levies are issued. The risk of taxpayers not having their rights properly protected is increased because revenue officers have the authority to issue manual levies without any managerial review or approval. We recommend that management conduct a risk assessment and implement additional controls to ensure that taxpayers are properly advised of their appeal rights.

In addition to the controls designed to protect taxpayers' rights, the IRS also reviews samples of closed collection cases to evaluate the quality of work. The Collection Quality Measurement System (CQMS) is used to evaluate cases closed by revenue officers. One of the factors evaluated by CQMS is whether notices of appeal rights for pending levies are sent 45 days prior to the levy. We recommend that reviewers also determine whether notices were sent in less than 30 days of the levy date to identify any statutory violations of RRA 98. Although ACS cases are not currently post reviewed, a system is being developed. We also recommend that similar criteria be incorporated into the quality review of closed ACS cases.

Management's Response: IRS management agreed with our assessment of the improvements they have made with their controls. They will continue to improve the controls over the issuance of levies. For example, the ICS was updated to prevent employees from changing the final notice date and CQMS will work with Compliance Policy to add the 30- and 45-day measures into the CQMS process measures (for ACS cases, these criteria have already been added).

In response to our second recommendation, the IRS plans to include manual levies in the CQMS to determine if it is issuing them without notifying taxpayers of their appeal rights. Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment: We do not believe that the IRS has fully addressed our concern about the lack of controls over manual levies issued by revenue officers. Specifically, there is no audit trail for these transactions and there is no review or approval process to ensure that the taxpayer's rights are protected. The proposed corrective action is currently part of the current CQMS process for Collection cases

closed by revenue officers. The use of levies in conjunction with closing a case is one of the standards already used by the CQMS.

While we still believe our second recommendation is worthwhile, we do not intend to elevate our disagreement concerning this matter to the Department of Treasury for resolution.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

**The Internal Revenue Service Has Improved Controls
Over the Issuance of Levies, But More Should Be Done**

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The Internal Revenue Service Has Improved Controls Over the Issuance of Levies, But More Should Be Done

Background

When taxpayers refuse to pay delinquent taxes, the Internal Revenue Service (IRS) has authority to work directly with financial institutions and other third parties to seize taxpayers' assets. This action is commonly referred to as a "levy." The IRS Restructuring and Reform Act of 1998 (RRA 98)¹ requires the IRS to notify taxpayers at least 30 days before initiating any levy action to give taxpayers an opportunity to formally appeal the proposed levy.

RRA 98 also requires the Treasury Inspector General for Tax Administration (TIGTA) to annually verify that the IRS is complying with the new provisions. This is the fourth year that the TIGTA has evaluated the controls over levies. We performed this audit in the Wage and Investment (W&I) and the Small Business/Self-Employed (SB/SE) Divisions of the IRS from November 2001 to April 2002. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Two operations within the IRS issue levies to collect delinquent taxes:

- The Automated Collection System (ACS), where customer service representatives contact delinquent taxpayers by telephone.
- The Collection Field function, where revenue officers contact delinquent taxpayers in person and control their cases on the Integrated Collection System (ICS).

Both operations issue two types of levies:

- Systemically generated levies.
- Manual levies.

Previous TIGTA reviews have recognized that the IRS has significantly improved controls over the issuance of

¹ IRS Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

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Systemic Controls Over Automated Collection System Generated Levies Are Effective

systemically generated levies.² However, controls still need to be strengthened over levies systemically generated by the ICS and manual levies issued by both the ACS and revenue officers.

ACS systemic controls ensure that taxpayers receive timely notification of their appeal rights

The first step in the collection process involves mailing taxpayers a series of notices asking for payment of delinquent taxes. If taxpayers do not comply, the majority of the accounts are forwarded to 1 of the 20 ACS Call Centers where customer service representatives contact taxpayers by telephone to resolve the account. If an account cannot be resolved over the telephone, and sufficient information is available, the ACS has the authority to issue levies to collect the account from third party sources.

The ACS can issue two types of levies. The first type, and by far the type most frequently used, is generated through an automated system. This automated system contains a control, developed to comply with RRA 98, that compares the date the taxpayer was notified of the pending levy with the date requested for the actual levy. If there are fewer than 30 days between the dates, the system will not generate a levy. This control effectively ensures that taxpayers have been notified at least 30 days prior to the levy and have been informed of their appeal rights for any systemically generated levy.

We tested the effectiveness of the systemic control by reviewing a statistical sample of 61 ACS cases containing levies issued during 2001 (details of our sampling methodology are presented in Appendix IV). All of the 61 taxpayers in our sample were properly advised of their appeal rights at least 30 days prior to any levy action. Because we did not identify any errors in our sample, we do not have an error rate that can be reliably projected to the population of ACS levies. Instead, based on the results of

² *The Internal Revenue Service Complied With Levy Requirements* (Reference Number 2001-10-113, dated July 2001). *The Internal Revenue Service Has Significantly Improved Its Compliance With Levy Requirements* (Reference Number 2000-10-150, dated September 2000).

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Systemic Controls Over Integrated Collection System Generated Levies Need to Be Strengthened

our case review and the effectiveness of the systemic control, we believe that ACS properly contacted virtually all taxpayers prior to issuing a systemic levy.

During fieldwork, we also tested the control by requesting a levy on a live case for which less than 30 days had elapsed since the final notice date. The systemic control properly prevented the levy from being issued.

Revenue officers can modify dates to circumvent ICS systemic controls over levies

Many times, notices and telephone calls to taxpayers do not successfully resolve delinquent accounts and cases have to be assigned to revenue officers in field Collection offices for face-to-face contact with taxpayers. Cases assigned to revenue officers are controlled on the ICS. Revenue officers use the ICS to record collection activity on delinquent cases and to generate certain enforcement actions such as levies. Again, revenue officers must give taxpayers 30 days notice and also advise taxpayers of their appeal rights before initiating any levy.

The IRS installed a systemic control in the ICS similar to the control in the ACS that prevents a levy from being issued without taxpayers having received 30 days notice and their appeal rights. This systemic control was developed and installed by the IRS to help ensure compliance with levy notification provisions of RRA 98. Although the systemic control has greatly reduced the risk of taxpayers' rights being violated when the IRS issues levies, we found that revenue officers can easily circumvent the control by changing the final notice date in the ICS. Management has not implemented controls to prevent revenue officers from changing the notice date.

We tested the effectiveness of the systemic control by reviewing a statistical sample of 61 ICS cases containing levies issued during 2001. Sixty of the 61 taxpayers received their appeal rights at least 30 days prior to any levy action. However, one taxpayer did not receive notification. In this specific case, the ICS did not show any record of the taxpayer receiving a final notice. Instead, the ICS showed that the revenue officer entered incorrect information into

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the system that indicated the taxpayer had been issued a notice of levy appeal rights more than 30 days prior to the date that the levy was issued. The revenue officer incorrectly entered into the ICS the date of the fourth collection notice as the notification date of levy appeal rights. Prior to RRA 98, the fourth collection notice was the final notice the taxpayer received before levy action was taken. However, RRA 98 requires that taxpayers be given appeal rights separate and apart from the fourth collection notice. The system compared the revised notice date with the actual date requested for the levy and, since more than 30 days had elapsed, generated a levy to be issued to the taxpayer's bank. The IRS collected over \$25,000 from this levy.

The ICS systemic control functioned as designed, but did not prevent a violation of the taxpayer's rights. In this case, the revenue officer was able to circumvent the systemic control and revise the information recorded in the ICS to show that the taxpayer had received notice of the pending levy. This is a significant difference between the control systems in the ACS and the ICS. ACS employees do not have the ability to revise notice dates. As a result, the systemic controls in the ACS effectively protect taxpayers' rights and the systemic controls in the ICS do not.

We do not believe that this is a case of the revenue officer not understanding the law. The IRS has emphasized the provisions of RRA 98 to revenue officers so that there is no misunderstanding. Not offering appeal rights to the taxpayer prior to the levy in this case is a potential Section 1203 violation of RRA 98 and could result in the revenue officer being terminated for misconduct. Accordingly, we have referred the case to the TIGTA Office of Investigations for further evaluation.³

The sample of 61 cases we reviewed was randomly selected from a population of 195,513 cases containing levies that

³ Act Sec. 1203, IRS Personnel Flexibilities (termination of employment for misconduct), IRS Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

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were either open on the ICS as of December 2001 or closed within the prior 6 months. Complete details of our sampling methodology are presented in Appendix IV. Since the sample of cases reviewed was a valid statistical sample, we can reliably project the results of the sample review to the population. Based on our actual error rate of 1.6 percent in the sample, we are 95 percent confident that between 1 and 9,189 taxpayers in the population of cases did not receive adequate final notice before the IRS took levy action.

The IRS needs to supplement the current controls over levies issued through the ICS. The systemic controls are not adequate by themselves because they can easily be circumvented. In the short run, the IRS could immediately require all levies to be reviewed and approved by a manager before they are issued to ensure that taxpayers have received their appeal rights. Another option would be to rely on the Collection Quality Review System's post-review of closed cases to identify specific instances of taxpayers not being advised of their rights. Finally, in the long run, the IRS could modify the programming of the ICS to limit a revenue officer's ability to change notice dates.

Recommendation

1. The Commissioner, SB/SE Division, needs to perform a risk assessment of ICS controls over systemically generated levies. Based on this assessment, SB/SE management should establish cost-effective controls to supplement the existing ICS systemic controls to ensure that taxpayers receive their appeal rights before the IRS takes levy action.

Management's Response: ICS was updated to prevent employees from changing the final notice date.

Controls Over the Issuance of Manual Levies Need to Be Strengthened

The IRS does not know how many manual levies have been issued

The second type of levy that both ACS and revenue officers can issue is the manual levy. That is, the levy is issued outside the automated processes within the ACS and the ICS and is not subject to the systemic controls. The IRS does not know how many manual levies have been issued

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by either the ACS or revenue officers and does not know the taxpayers who have received manual levies.

Although the ACS primarily issues levies systemically, the ACS must issue manual levies under circumstances such as jeopardy situations,⁴ levies on Social Security payments, and levies on individual retirement accounts. All manual levies issued by the ACS must be reviewed and approved by a manager. We consider this managerial review to be an effective control; however, the following case shows that it is not foolproof.

We were able to identify and review 26 levies manually issued by the ACS during 2001. Our sample was judgmental because we had to search the ACS narrative histories for references to manual levies. The review showed that taxpayers received proper notification of their rights in 25 of the 26 cases. However, one manual levy was sent to a financial institution without the taxpayer having been advised of the right to a hearing. The manual levy was approved by an ACS manager, but because the levy was done manually, the systemic control in the ACS to ensure that taxpayers receive proper notice was not in effect. The case itself was unusual in that the taxpayer wanted the IRS to levy on an individual retirement account. Nevertheless, the taxpayer should have received notification 30 days prior to the levy being served.

Revenue officers can issue manual levies without managerial review and approval

Manual levies issued by revenue officers pose an even greater risk because revenue officers can issue manual levies without managerial approval. Revenue officers working in field offices can use the ICS to generate all levies except for jeopardy situations, but the option of doing a manual levy on any case is always available to revenue officers.

As a result, there is a high risk associated with manual levies. Although most levies are systemically generated, the

⁴ The IRS is concerned that the taxpayer may attempt to hide or dispose of assets to prevent enforced collection actions.

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IRS does not know how many manual levies have been issued by either the ACS or revenue officers. The manual levies issued by revenue officers present the greatest risk because they are virtually uncontrolled. Unlike manual levies issued by the ACS, management has not implemented any requirements that levies issued by revenue officers be reviewed or approved.

The IRS needs to strengthen controls over manual levies. At a minimum, the IRS needs to track the number of manual levies issued by the ACS and the number issued by revenue officers to be able to assess the associated risks. After determining the volumes, the IRS needs to evaluate the extent of controls necessary to protect taxpayers' rights and ensure compliance with RRA 98.

The options for additional controls depend on the amount of risk that the IRS is willing to assume and the cost of the individual control. For example, the IRS could require all manual levies issued by revenue officers to be reviewed and approved by a manager. Another option would be to create a new, sequentially numbered, controllable form similar to the Form 809 used as a receipt for cash payments that would be used for all manual levies. Finally, the volume of manual levies issued by revenue officers may be so low, and the risk so high, that revenue officers should issue all levies through the ICS except for jeopardy situation levies.

Recommendation

2. The Commissioners, SB/SE and W&I Divisions, need to perform a risk assessment of the controls over manual levies and develop cost-effective controls to ensure that taxpayers receive their appeal rights before the IRS takes levy action.

Management's Response: The IRS will include manual levies in the Collection Quality Management System (CQMS) reviews to determine if they are issuing them without notifying taxpayers of their appeal rights.

Office of Audit Comment: We do not believe that the IRS has fully addressed our concern about the lack of controls over manual levies issued by revenue officers. Specifically,

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there is no audit trail for these transactions and there is no review or approval process to ensure that the taxpayer's rights are protected. The proposed corrective action is currently part of the current CQMS process for Collection cases closed by revenue officers. The use of levies in conjunction with closing a case is one of the standards already used by the CQMS.

The Criteria for Post Reviewing Closed Collection Cases Needs to Be Updated

Closed case reviews can identify violations of RRA 98

The systemic controls built into the ACS and the ICS, and the managerial reviews and approvals, are designed to protect taxpayers' rights. In addition, the IRS has a separate control that is designed to identify error trends on Collection cases closed by revenue officers. This control is the Collection Quality Management System (CQMS).

CQMS reviews a statistical sample of Collection cases closed by revenue officers. Although cases closed by the ACS are currently not reviewed, a post-review process is being developed for the ACS. Standards have been developed to evaluate the actions taken to resolve the closed cases. One of these actions is the use of levies. Reviewers determine whether taxpayers were notified of the pending levy and their appeal rights at least 45 days before the levy was issued. The 45-day guideline includes the 30-day statutory period plus 15 additional days for administrative actions.

We performed a limited review of CQMS results and found that reviewers had identified several levies that had been issued less than 45 days from the date the taxpayer was notified. The reports did not contain enough information to identify the specific case, or to identify if any of the levies had been issued in less than 30 days from the date of the notice. Although the identification of levies issued in less than 45 days may provide IRS management with valuable information, we believe that the IRS should also determine whether any levies were issued in less than 30 days. This would identify any potential violation of RRA 98.

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Recommendation

3. The Commissioners, SB/SE and W&I, need to revise the criteria used by the CQMS by adding a standard to identify any levy issued in less than 30 days from the notice date. The same criteria should be incorporated into the post-review of ACS cases. Any levy issued in less than 30 days would be a potential violation of RRA 98.

We have discussed this concept with the IRS and corrective actions are already in process.

Management's Response: CQMS will work with Compliance Policy to add the 30- and 45-day measures into the CQMS process measures. For ACS cases, these criteria have already been added to the CQMS and will be completed in their 2003 changes.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether the Internal Revenue Service (IRS) has complied with 26 U.S.C. § 6330, Notice and Opportunity for Hearing Before Levy.¹ Specifically, we determined whether the IRS had sufficient controls in place to ensure that taxpayers were advised of their right to a hearing at least 30 days prior to any levy action. We performed the following tests to accomplish this objective.

- I. Determined whether the IRS implemented sufficient controls and procedures to ensure that taxpayers were advised of their right to a hearing at least 30 days prior to any levy action.
 - A. Performed a walk-through of one Automated Collection System (ACS) Call Center and one field Collection office to evaluate procedures and controls over due process notices.
 - B. Confirmed during the walk-through whether systemic controls in the ACS and the Integrated Collection System (ICS) systems prevented levies from being issued less than 30 days from the final notice date.
- II. Determined whether levies issued by the IRS during 2001 complied with legal guidelines in 26 U.S.C. § 6330.
 - A. Selected a statistically valid nationwide sample of 61 ACS and 61 ICS levies issued during 2001 using the following sampling criteria:
 - Population of ACS Cases 465,580.
 - Population of ICS Cases 195,513.
 - Confidence Level 95 percent.
 - Expected Rate of Occurrence 1 percent.
 - Precision Rate +/- 2.5 percent.
 - Selection Technique Simple Random Selection.
 - B. Analyzed Master File² transcripts, ACS records, and ICS records for the sample cases selected to verify that taxpayers were advised of their right to a hearing at least 30 days prior to any levy action.

¹ 26 U.S.C. § 6330 (Supp. IV 1998).

² The IRS' database that stores various types of taxpayer account information.

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- C. Reviewed a judgmental sample of 26 manual ACS levies issued during 2001 to verify that taxpayers were advised of their right to a hearing at least 30 days prior to any levy action. This sample was selected from cases outside of the population of cases used to select our statistical sample. A judgmental sample was selected because we could not determine the population of manual ACS levies issued from information maintained by the IRS.

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Appendix II

Major Contributors to This Report

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Stanley Rinehart, Director

Stephen Root, Audit Manager

Tom Cypert, Senior Auditor

Cari Fogle, Senior Auditor

Allen Gray, Senior Auditor

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Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner N:DC
Director, Compliance, Small Business/Self-Employed Division S:C
Director, Filing and Compliance, Small Business/Self-Employed Division S:C
Director, Compliance, Wage and Investment Division W:CP
Director, Strategy and Finance W:S
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaisons:
 Chief, Customer Liaison S:COM
 Director, Compliance, Small Business/Self-Employed Division S:C
 Director, Compliance, Wage and Investment Division W:CP

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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Actual; 1 taxpayer did not receive notice of his/her appeal rights before the Internal Revenue Service (IRS) took levy action (see page 3).

Methodology Used to Measure the Reported Benefit:

We obtained a computer file of 195,513 delinquent taxpayer accounts (containing levies) that were either open on the Integrated Collection System (ICS) as of December 2001 or closed within the prior 6 months and selected a random sample of 61 cases to review. The sample was selected using the following sampling criteria:

- | | |
|-------------------------------|--------------------------|
| • Population of Cases | 195,513. |
| • Confidence Level | 95 percent. |
| • Expected Rate of Occurrence | 1 percent. |
| • Precision Rate | +/- 2.5 percent. |
| • Selection Technique | Simple Random Selection. |

We identified one case where the taxpayer did not receive any notice of his/her appeal rights prior to levy action.

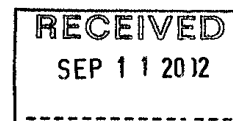
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Appendix V

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



SEP 9 2002

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *gn* Joseph G. Kehoe *David F. Kehoe*
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – The Internal Revenue Service Has Improved
Controls Over the Issuance of Levies, But More Should Be Done
(Audit # 200240012)

I reviewed your report and agree with your assessment of the improvements we have made and continue to make to improve our controls. This year's review again confirms that taxpayers continue to receive timely notification of their appeal rights in virtually all cases. We will, however, continue to look for and implement ways to further improve our controls over the issuance of levies. Our responses to your recommendations are discussed below.

RECOMMENDATION 1

The Commissioner, Small Business/Self-Employed Division (SB/SE), needs to perform a risk assessment of Integrated Collection System (ICS) controls over systemically generated levies. Based on this assessment, SB/SE Division management should establish cost-effective controls to supplement the existing ICS systemic controls to ensure that taxpayers receive their appeal rights before the Internal Revenue Service (IRS) takes levy action.

ASSESSMENT OF CAUSE

An ICS user was able to change the final notice date on an ICS case.

CORRECTIVE ACTION

ICS was updated to prevent employees from changing the final notice date.

IMPLEMENTATION DATE

Completed June 4, 2002

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RESPONSIBLE OFFICIAL(S)

Director, Filing and Payment Compliance, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

Not Applicable.

RECOMMENDATION 2

The Commissioners, SB/SE and Wage and Investment (W&I), need to perform a risk assessment of the controls over manual levies and develop cost-effective controls to ensure that taxpayers receive their appeal rights before the IRS takes levy action.

ASSESSMENT OF CAUSE

When TIGTA reviewed manually issued levies as part of the audit, they found we sent one manually issued levy to a financial institution without first advising the taxpayer of the right to a hearing. This levy was issued at the request of the taxpayer. Before the audit, we deleted Automated Collection System (ACS) authority to levy without first issuing a Collection Due Process notice, the situation that led to this manual levy.

CORRECTIVE ACTION

We will include manual levies in the Collection Quality Management System (CQMS) reviews to determine if we are issuing them without notifying taxpayers of their appeal rights.

IMPLEMENTATION DATE

March 1, 2003

RESPONSIBLE OFFICIAL(S)

Director, Filing and Payment Compliance, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN

The Program Manager of the Enforcement Office will keep the Director, Filing and Payment Compliance, SB/SE Division advised of the status of the corrective action.

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RECOMMENDATION 3

The Commissioners, SB/SE and W&I, need to revise the criteria used by the CQMS by adding a standard to identify any levy issued in less than 30 days from the notice date. The same criteria should be incorporated into the post-review of ACS cases. Any levy issued in less than 30 days would be a potential violation of RRA 98. We have discussed this concept with the IRS and corrective actions are already in process.

ASSESSMENT OF CAUSE

During TIGTA's review of CQMS results, they found that reviewers had identified some levies which were issued less than 45 days from the date we notified the taxpayer. However, they were unable to identify any levies issued less than 30 days from the date of notice.

CORRECTIVE ACTION

CQMS will work with Compliance Policy to add the 30 and 45 day measures into our CQMS process measures. For ACS cases, these criteria have already been added to the Centralized Quality Review System and will be completed in their 2003 changes.

IMPLEMENTATION DATE

March 1, 2003

RESPONSIBLE OFFICIAL(S)

Director, Filing and Payment Compliance, SB/SE Division
Director, Case Management, SB/SE Division

If you have any questions, please contact me at (202) 622-0600 or Joseph R. Brimacombe, Deputy Director, Compliance Policy, Small Business/Self-Employed, at (202) 283-2200.